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SUBJECT: FROM THE MATTRESS TO THE MARKET: CROATS DISCOVER THE JOYS
OF THE STOCK MARKET

Ref: Zagreb 862

1. Summary: The further privatization of Croatia Telecom was the talk of Zagreb after its October 5 IPO, in which the GOC offered citizens the option to purchase shares at what was a substantially discounted price. Coming as it did only 7 weeks before general elections, the Government-set sale price of HRK 265 per share was criticized by the opposition as pre-election pandering when the share price shot to HRK 400 on the opening of trading in Zagreb and London. Prime Minister Sanader expressed satisfaction with the results, saying that his government wanted to ensure people made a profit on their investment and promised more privatizations of major companies should his party be given another term in office in November's elections. Volume on the Zagreb Stock Exchange has broken records as many of the more than 350,000 people who purchased shares have been lining up at brokerages across the country to sell, hoping to lock in the over fifty-percent gain on their investments. End Summary.

2. Interest in the privatization of Croatia Telecom (HT) exceeded expectations (REF) as a stock frenzy gripped a culture traditionally more disposed to stashing cash under mattresses than to investing in securities. In fact, interest was so great that the GOC increased the number of shares available, and still had to reduce the maximum size packet each citizen could purchase. Two factors fed this frenzy. First was the previous IPO of the national oil company INA under similar conditions, when those few citizens who took advantage of the offer reaped a nearly 80 percent gain on the first day of trading. Second was the (accurate) assumption that the GOC, with elections upcoming, would set the initial share price low, guaranteeing investors a gain.

3. Over 350,000 Croats (in a country of 4.4 million people) signed up to buy shares, most for the first time in their lives. They were not disappointed. The GOC set the price for HT shares at HRK 265 (approx USD 52). On the opening of trading, the share price in Zagreb and London rose to over HRK 400, before settling at around HRK 380. As Croats lined up at the country's brokerages to sell their shares, trading of HT alone accounted for over half the volume on the Zagreb Exchange over the last week.

4. Opposition candidate Ljubo Jurcic (SDP) criticized the Sanader government for politicizing the sale of HT by setting such a low share price, arguing that Sanader had defrauded the state. Jurcic and SDP party head Zoran Milanovic renewed calls for enactment of a capital gains tax in Croatia (which currently has none). Sanader and the ruling HDZ oppose a capital gains tax, claiming it would stifle Croatia's small, but growing, capital market. Sanader expressed satisfaction with the HT privatization and said that, if re-elected, he would organize more such IPOs, including state-owned (and very profitable) insurance heavyweight Croatia Osiguranje.

5. COMMENT: The Croatian public knows that the HT sale was timed

with elections in mind, but the \$1,200 one-day profit has been much more interesting to most than the opposition's charges of pandering.

Nearly ten percent of the population, meaning a much larger percentage of total households, bought shares. It is unclear whether or not this privatization will help Sanader in the elections; what is certain, however, is that it will not hurt.

BRADTKE